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State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

FLATHEAD VALLEY COMMUNITY COLLEGE

Financial-Compliance Audit for the Two Fiscal Years Ended June 30, 1984

PLEASE RETURN

This report contains 21 recommendations for improvement of the college's operations, including recommendations relating to:

- Student full-time equivalents (FTEs) which are used to determine the amount of General Fund support the college receives;
- State compliance issues including the college's relationship with its Foundation and the administration of state leave laws;
- Purchasing procedures;
- Electronic Data Processing operations; and
- Financial records concerning inventories, library resources, accounts receivable, and accounts payable.

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

		Term Expires
Ted Schwinden, Governor*		1988
Ed Argenbright, Superintendent of Public Instruction*		1988
Jeffrey Morrison, Chairman	Helena	1987
David Paoli, Student Regent	Missoula	1986
Elsie Redlin	Lambert	1991
Bert Hurwitz	White Sulphur Springs	1986
Dennis Lind	Missoula	1989
Beatrice McCarthy	Anaconda	1990
John Scully	Bozeman	1992

*Ex officio members

COMMISSIONER OF HIGHER EDUCATION

Dr. Irving E. Dayton	Commissioner of Higher Education
John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs

FLATHEAD VALLEY COMMUNITY COLLEGE BOARD OF TRUSTEES

	Term Expires
Shirley Bowdish, Chairman	1988
Susan Lacosta, Vice Chairman	1987
Gordon Pirrie	1986
Tom Weaver	1986
Michael Jenson	1987
H.G. Ross, D.V.M.	1987
William Irvin	1988

FLATHEAD VALLEY COMMUNITY COLLEGE ADMINISTRATION

Dr. Howard L. Fryett	President
Dr. Ed Myers	Dean of Educational Services (Acting President 08/83 - 03/84)
George Sirogiannis	Business Manager
Larry Rasmussen	Controller

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

	Page
Recommendation #1	
The college:	
A. Develop procedures to obtain reasonable forecasted cash needs for financial aid programs.	4
Agency Response: Concur. See page 45.	
B. Develop procedures to ensure timely federal reports are submitted.	4
Agency Response: Concur. See page 45.	
C. Utilize the letter-of-credit cash request system to fund federal programs.	4
Agency Response: Concur. See page 45.	
Recommendation #2	
The college:	
A. Establish policies and procedures to control the recording and reporting of donations made to the college and to properly administer the expenditure of the donations.	6
Agency Response: Concur. See page 46.	
B. Request the foundation return those donations which were made to the college.	6
Agency Response: Concur. See page 46.	
Recommendation #3	
The college implement procedures to ensure annual leave is administered in accordance with state laws.	7
Agency Response: Concur. See page 46.	

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Recommendation #4

The college account for adult education and community service courses separately. 7

Agency Response: Concur. See page 46.

Recommendation #5

The college obtain formal approval from the Board of Trustees for all budget transfers. 8

Agency Response: Concur. See page 47.

Recommendation #6

The college close the bank accounts or obtain authorization from the Board of Regents to maintain the accounts. 9

Agency Response: Concur. See page 47.

Recommendation #7

The college review and revise procedures to ensure an accurate and supported FTE count in accordance with Commissioner's Office policies. 10

Agency Response: Concur. See pages 47 and 48.

CHE Response: Concur. See page 55.

Recommendation #8

The college ensure the current purchasing policies and procedures are followed. 12

Agency Response: Concur. See page 49.

Recommendation #9

The college establish procedures to ensure accurate bookstore inventory records are maintained. 13

Agency Response: Concur. See page 49.

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Recommendation #10

The college implement controls to prevent or detect errors in bookstore transactions. 14

Agency Response: Concur. See page 49.

Recommendation #11

The college restrict computer users' access to that necessary for their functions. 16

Agency Response: Concur. See page 49.

Recommendation #12

The college utilize resource security in addition to menu security for its important files. 17

Agency Response: Concur. See page 50.

Recommendation #13

The college develop policies and procedures for the EDP operation which will improve system integrity and efficiency. 19

Agency Response: Concur. See pages 50 and 51.

Recommendation #14

The college establish procedures that will result in timely submission of federal reports. 20

Agency Response: Concur. See page 52.

Recommendation #15

The college:

A. Establish standard written criteria for determining which students are required to make repayments to the financial aid accounts. 21

Agency Response: Concur. See page 52.

Page

B. Implement procedures to ensure refunds of tuition and fees are remitted to the appropriate person or financial aid account. 21

Agency Response: Concur. See page 52.

Recommendation #16

The college properly validate the student aid reports and follow up discrepancies as required by federal regulations. 21

Agency Response: Concur. See page 52.

Recommendation #17

The college review authorized signatures periodically and update them as necessary. 23

Agency Response: Concur. See page 53.

Recommendation #18

The college establish procedures which will ensure transactions are reviewed and authorized before they are processed. 24

Agency Response: Concur. See page 53.

Recommendation #19

The college establish procedures to adequately account for library resources. 25

Agency Response: Concur. See page 53.

Recommendation #20

The college develop procedures to adequately account for and bill accounts receivable. 26

Agency Response: Concur. See page 54.

Recommendation #21

The college maintain detailed support for general ledger balances of accounts receivable and payable. 26

Agency Response: Concur. See page 54.

GENERAL

We performed a financial-compliance audit of Flathead Valley Community College for each of the two fiscal years ending June 30, 1983 and June 30, 1984. Included was an audit of the college's contracts and grants for the two fiscal years ended June 30, 1984, and an audit of the financial aid programs for the fiscal year ended June 30, 1984. The college participates in the following federally funded financial aid programs: the College Work-Study (CWS) Program, the Supplemental Educational Opportunity Grant (SEOG) Program, and the Pell Grant Program. The college also receives student financial aid funds from State Student Incentive Grants, State Work-Study and other private sources.

The objectives of our audit were to: 1) determine if the financial statements of the college present fairly its financial position and results of operations for each of the two fiscal years ended June 30, 1983 and June 30, 1984; 2) determine the extent of the Flathead Valley Community College's compliance with federal regulations regarding financial aid reports submitted to the U.S. Department of Education for the fiscal year ended June 30, 1984; 3) determine if the college complied with applicable state and federal laws and regulations; 4) make recommendations for the improvement of management and internal controls; and 5) determine whether prior audit recommendations have been effectively implemented.

Our audit of the College Work-Study, Supplemental Educational Opportunity Grants, and Pell Grants was performed in accordance with the financial and compliance elements of the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," 1981, and the audit guide prescribed by the U.S. Department of Education, March 1984.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the Flathead Valley Community College staff for their cooperation and assistance during our audit.

BACKGROUND

The Flathead Valley Community College was established in April 1967, under the statutory provisions for community colleges enacted by the 1965 Montana Legislative Assembly. It is the youngest college in the Montana state system and serves the residents of Flathead County which comprises its college district, as well as residents from other parts of the state of Montana and throughout the nation. The College is fully accredited by the Northwest Association of Schools and Colleges.

Under the laws of Montana, the Board of Regents of Higher Education is vested with the general supervision of community colleges. The Flathead Valley Community College is governed by a board of trustees elected from the district. The college president is responsible for the immediate direction, management, and control of the institution.

The Flathead Valley Community College offers the following instructional services for which associate degrees and/or certificates of completion may be granted:

A. Freshman and sophomore courses for transfer to a four-year university or college leading toward a baccalaureate degree.

B. Occupational education for entry into specific vocations and upgrading in order to increase effectiveness on the job.

C. Developmental education for students who are not prepared for college work and/or occupational programs.

D. Continuing education for individuals in the community who may desire further general education in a vocational field or in a social, cultural interest. Programs and courses can be varied and modified to meet the needs and demands of the community.

In the academic year 1983-84, the average college enrollment was 437 full-time students and 1,350 part-time students.

Basic funding for the current operations of the college is provided from the state general fund, student tuitions and fees, and a mandatory district levy.

Although the college has made significant improvements regarding its financial records since the previous audit, more improvements are necessary to correct the problems discussed in this report. As of July 1, 1982, the college began processing transactions on a different computer system using a software package provided by a private consultant. The software package allows the college to record transactions within the College and University Business Administration fund structure which was not feasible prior to July 1982.

Turnover in key positions, e.g., the President and the Controller, contributed to many of the problems described within this report. The President's position was vacant between August 1983 and March 1984; the Dean of Student Services acted as Interim President during this time period. The Controller's position was vacant from April 1983 to August 1983 at which time a temporary Controller was hired; the temporary controller was made permanent in December 1983.

UNRESTRICTED FUNDS SUPPORTING RESTRICTED ACTIVITIES

The college receives student financial aid funds from the U.S. Department of Education on the cash advance request system. During fiscal year 1983-84, all cash requests were submitted after student aid payments had been made. The cash used to make these payments came from unrestricted accounts. According to college officials the cash is not requested in advance because the forecasted cash needs are not provided to the business office in a timely fashion, and there is a general reluctance to request cash based on an estimate.

The use of cash requests on a reimbursement basis, coupled with the length of time between the expenditure and the reimbursement, results in lost interest to the unrestricted fund. We estimated the amount of interest lost on the unrestricted moneys to be approximately $6,900 for fiscal year 1983-84. The interest was computed from the end of the request period until the reimbursement was received; e.g., the request for cash for the period June 30, 1983 to December 31, 1983 was made in May 1984 and

received in early June 1984. The request for the three-month period ended June 30, 1984 was not made until October 15, 1984 and the cash had not been received as of December 4, 1984. The total amount of the cash requests we examined for purposes of computing lost interest was $349,573. The examples indicate that the college does not make timely cash requests; in addition, there is often a delay of a month or more before the cash is received.

The college is eligible for using the letter-of-credit system to receive federal funds because of the amount of federal funds received. The letter-of-credit system is a more efficient and timely method of receiving cash. Drawdowns of cash on a letter-of-credit are often completed in three days. The student aid audit report for fiscal years 1981-82 and 1982-83 contained a recommendation that the college convert to letter-of-credit. The college officials concurred with but have not yet implemented the recommendation; they stated that the college's federal reports should be more timely before making the conversion.

RECOMMENDATION #1

WE RECOMMEND THE COLLEGE:

A. DEVELOP PROCEDURES TO OBTAIN REASONABLE FORECASTED CASH NEEDS FOR FINANCIAL AID PROGRAMS.

B. DEVELOP PROCEDURES TO ENSURE TIMELY FEDERAL REPORTS ARE SUBMITTED.

C. UTILIZE THE LETTER-OF-CREDIT CASH REQUEST SYSTEM TO FUND FEDERAL PROGRAMS.

STATE COMPLIANCE

We have examined the financial statements of Flathead Valley Community College for the fiscal years ended June 30, 1983 and June 30, 1984, and have issued our report thereon dated December 21, 1984. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of accounting records and such other

auditing procedures as we considered necessary in the circumstances.

Except for the instances of noncompliance described in this report, Flathead Valley Community College complied with the terms and provisions of laws and regulations tested that could have material effect on the college's financial statements for the transactions tested. Nothing came to our attention in connection with our examination that caused us to believe that Flathead Valley Community College was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

The noncompliance conditions listed in the following report sections were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and these conditions do not affect our opinion on the Flathead Valley Community College's financial statements dated December 21, 1984.

FVCC Foundation

Our review of the FVCC Foundation's donation files disclosed $20,080 in donations which were given to the college and were not recorded on the college's accounting records.

Donations made to the college are college assets and should be recorded on the college's accounting records. All such donations should be deposited with the college and expended pursuant to the conditions of the donation. As a general rule, if the foundation is to handle donations, the college and foundation should enter into a contract which sets forth rights and duties of both parties. The college may not donate assets to the Foundation, but may contract with the Foundation to administer college assets. This type of contract will help ensure the donations are in fact used for college purposes.

We determined, through conversations with college officials, that there are no clear policies and procedures regarding the receipt of donations and the relationship between the college and foundation. This points out the need for the college to establish policies and procedures concerning donations and relations with the foundation.

RECOMMENDATION #2

WE RECOMMEND THE COLLEGE:

A. ESTABLISH POLICIES AND PROCEDURES TO CONTROL THE RECORDING AND REPORTING OF DONATIONS MADE TO THE COLLEGE AND TO PROPERLY ADMINISTER THE EXPENDITURE OF THE DONATIONS.

B. REQUEST THE FOUNDATION RETURN THOSE DONATIONS WHICH WERE MADE TO THE COLLEGE.

Vacation Leave

We noted several employees who had annual leave balances at December 31, 1983 in excess of the allowable two years' accumulation. The excess of two years' accumulation not used within 90 days of calendar year 1984 should have been forfeited. The college's leave records indicate it was not.

Employee vacation leave within the university system was discussed in "34 Opinions of the Attorney General #1." The Attorney General ruled that nonteaching personnel within the university system are governed by the provisions of the state leave laws. The Attorney General further ruled that the Board of Regents cannot grant annual leave at a schedule different than that contained in section 2-18-617, MCA. The college is under the general supervision of the Board of Regents and therefore annual leave cannot be granted at a schedule different from that contained in state statutes. Section 2-18-617, MCA, requires annual leave in excess of two years' accumulation to be used within 90 days of the calendar year succeeding the calendar year in which the excess was accrued.

During our review of the Board of Trustees' minutes, we noted the board took action to extend the date by which annual leave in excess of two years' accumulation must be used from 90 days into calendar year 1983 to September 1, 1983. The board passed the extension for 1983 only. However, the board's action was a violation of state leave laws discussed above.

Several of the college's employees had been unable to take vacations due to job schedules and workloads. The minutes of the May 10, 1983 Board of Trustees' meeting state the extension for use of excess leave was the most equitable solution. However, as noted above, the college is not in compliance with state law regarding annual leave balances because the board has no authority to grant leave extensions.

RECOMMENDATION #3

WE RECOMMEND THE COLLEGE IMPLEMENT PROCEDURES TO ENSURE ANNUAL LEAVE IS ADMINISTERED IN ACCORDANCE WITH STATE LAWS.

Adult Education

Section 20-7-702, MCA, requires that only certain classes be funded with the Adult Education mill levy. Presently, the college accounts for Adult Basic Education courses and Community Service courses within the same fund. The accounting records maintained by the college are not detailed enough to show that the millage revenue is used only for eligible classes. We were not able to determine if the college was in compliance with section 20-7-702, MCA. The Dean of Community Education indicated that the community service classes are budgeted and funded with tuition and fee revenue. The college's written response to our concern indicated that separate accounts would be established in order to demonstrate compliance with the statute.

RECOMMENDATION #4

WE RECOMMEND THE COLLEGE ACCOUNT FOR ADULT EDUCATION AND COMMUNITY SERVICE COURSES SEPARATELY.

Budget Transfers

The Board of Trustees of Flathead Valley Community College, during its June 1984 meeting, delegated its responsibility for approving budget transfers to the president of the college.

Section 20-9-208, MCA, states that the board shall approve and make a permanent record of any budget transfers. Furthermore, the board must determine there is excess budget authority when authorizing any budget transfers. This matter was brought to the attention of the college officials. Their response was that the board has established an audit committee of two board members who review budget expenditures thus indirectly reviewing budget transfers. The committee reports at each regularly scheduled board meeting and the board approves or disapproves the expenditures by a formal vote.

The audit committee review and subsequent board approval of expenditure transactions does not constitute compliance with section 20-9-208, MCA, as the budget transfers have not been specifically approved by the board and have not been made a permanent record within the minutes of board meetings.

RECOMMENDATION #5

WE RECOMMEND THE COLLEGE OBTAIN FORMAL APPROVAL FROM THE BOARD OF TRUSTEES FOR ALL BUDGET TRANSFERS.

Bank Accounts

At June 30, 1984, the college maintained several bank accounts outside the Flathead County Treasurer's office. State statutes indicate that all community college district moneys are to be deposited with the appropriate county treasurer or with other depositories approved by the Board of Regents. The college has not received this approval. The accounts outside of the county treasurer's office are unauthorized accounts and the college is not in compliance with section 20-15-308, MCA.

RECOMMENDATION #6

WE RECOMMEND THE COLLEGE CLOSE THE BANK ACCOUNTS OR OBTAIN AUTHORIZATION FROM THE BOARD OF REGENTS TO MAINTAIN THE ACCOUNTS.

FULL-TIME EQUIVALENTS

As part of our audit of the college's financial statements we audited the college's third week reports of full-time equivalent (FTE) students. We audited the FTE reports in accordance with the criteria set out in the "Registrar's Manual for Reporting Enrollment Data" issued by the Commissioner of Higher Education (CHE) on May 15, 1979, because there are no statutes which specifically state which courses are included in the FTE counts for funding purposes. The only courses specifically excluded are community service courses. According to this manual, the FTEs are computed by dividing the total credit hours generated as of the 15th day of classes by 15 credit hours. The manual also states, "All students who are registered, have paid fees and for whom a grade will be recorded indicating the quality of performance shall be included in enrollment reporting."

The FTE reports submitted to CHE were not materially misstated; however, we encountered the following problems affecting the FTE reports:

1. We tested 5 students for proper withdrawal procedures. We could not find documentation of the withdrawal for two of those students. Consequently, we could not determine if the students withdrew before or after the 15th day of class.

2. We noted one student's credit hours were included in the FTE report for Spring Quarter 1984 when the student had withdrawn during the first week of classes.

3. We noted several "N" and "Z" grades recorded on the college's completion roster. The "N" grade is an audit grade; the "Z" grade is a "no grade" which is issued to a student who has not completed any of the course work. The FTEs generated by these students should not be included in the FTE reports because the students receive no credit.

4. We attempted to verify the FTE for 48 courses. We noted one or more student exceptions in the FTE count for several of these courses.

   According to the college's registrar, the problems we encountered occurred for various reasons: students may register for the wrong classes and corrections are not made until after the 15th day of classes; registrations for classes held at the college's extended campuses often are submitted after the 15th day; registration for remedial classes continues throughout the quarter; at any time during the quarter a student may choose to audit a class rather than receive a grade. Instructors at the college do not follow the guidelines for grading which are outlined in the college catalog. For example, we were informed that instructors might issue a "W" (withdrawal) grade even if a student never shows up for class.

These problems indicate the college's system may not be adequate to ensure compliance with policies regarding FTE calculations. The college should review its procedures for tabulating FTEs and revise them in order to obtain accurate FTE reports.

RECOMMENDATION #7

WE RECOMMEND THE COLLEGE REVIEW AND REVISE PROCEDURES TO ENSURE AN ACCURATE AND SUPPORTED FTE COUNT IN ACCORDANCE WITH COMMISSIONER'S OFFICE POLICIES.

PURCHASING PROCEDURES

The business office has established purchasing procedures which, if followed, should ensure that expenditures and liabilities are recorded and reported in the proper fiscal year.

Our review of expenditure activity for the period July 1, 1982 through June 30, 1984, indicated that college purchasing procedures are not consistently followed by faculty and administrative personnel. We noted the following:

1. Items are purchased before proper approvals are obtained.

2. Receipts are not submitted when faculty and staff request reimbursement for purchases made. This results in untimely payments.

3. Faculty members share or split purchases to avoid obtaining purchase orders for those purchases over $50.

4. Administrators override controls thus allowing purchasing policies to be circumvented.

5. Receiving reports detailing the date goods and services are received are not consistently submitted. This may also result in untimely payments.

We noted several instances of expenditures being recorded in the wrong year due to the above problems. For example, books purchased and received in fiscal year 1982-83 were charged to fiscal year 1983-84. The bookstore manager indicated there was some problem with the acceptance of the shipment; however, there was no documentation to support this position.

Theater supplies purchased and received in fiscal year 1982-83 were charged to fiscal year 1983-84 because the applicable requisition was not submitted until then. The purchase of these items was not approved prior to the actual acquisition.

A faculty member, using personal funds, made a purchase in fiscal year 1982-83 without obtaining an approved requisition; in addition, there was no available budget authority. The requisition was withdrawn and resubmitted in fiscal year 1983-84 at which time the reimbursement to the faculty member was made.

The college periodically receives credit memos from vendors when goods are returned, e.g., textbooks which are not needed. A credit memo may be used to reduce the amount of a future liability due to a vendor. Credit memos which are not used in this manner are returned to the vendors for a cash refund.

As credit memos are received, the original expenditures for the goods are cancelled. We noted that credit memos received from vendors are not always applied to the proper fiscal year's expenditures. The college should record credit memos as reduction of expenditures for the year in which the original payment was made.

The business office, in conjunction with the president's office, should communicate the importance of following all purchasing procedures to the faculty and staff. The college's primary source of funding is tax money; thus the administration has the responsibility to the taxpayers to ensure the funds are expended in the proper year with appropriate authorization.

These areas of concern were brought to the attention of college officials during our interim audit period. Their response indicated that steps are being taken to address these issues.

RECOMMENDATION #8

WE RECOMMEND THE COLLEGE ENSURE THE CURRENT PURCHASING POLICIES AND PROCEDURES ARE FOLLOWED.

BOOKSTORE

The following sections describe concerns identified during our audit of the bookstore transactions and activities.

Inventory

The bookstore maintains two inventory systems; the book inventory is maintained on a computerized perpetual system and merchandise inventory is maintained on a manual periodic system. Bookstore personnel take physical counts of all inventory at the end of each academic quarter. The book inventory system generates an update report after count adjustments to the book inventory are made. The report details all adjustments input to the system and thus provides a tool for FVCC management to use in reviewing differences between actual counts and recorded counts.

During our audit we noted the following problems related to the bookstore inventory:

1. The final inventory run at June 30, 1984 did not agree to the count sheets. We could not trace adjustments resulting from the physical count to the final report because the corresponding update report was not retained. The Business Office has since reviewed the

count sheets and revised the inventory based on those counts.

2. The count sheets provided to the count teams contained the quantities recorded on the inventory system. Count teams could record these quantities as "counted" without actually counting the items.

3. The college did not provide us with invoices to support recorded costs for five of the ten sample items tested. Neither the bookstore nor the business office maintains the records necessary to support the inventory costs.

4. The college received a credit memo on June 22, 1984 for books returned April 18, 1984. There was no evidence to suggest inventory had been adjusted for the return.

The college should take steps to improve the inventory accounting records, e.g., maintain support documentation for inventory costs; adjust inventory on a timely basis for credit memos; retain, review, and approve adjustments reflected on the inventory update reports for each physical inventory; and provide appropriate count sheets to the count teams.

RECOMMENDATION #9

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES TO ENSURE ACCURATE BOOKSTORE INVENTORY RECORDS ARE MAINTAINED.

Expenditures

Transactions related to the bookstore operations are not subjected to the same level of review that other college transactions are given. Several errors in expenditure transactions resulted from the lack of review:

1. There were three instances of expenditure transactions being recorded in the wrong year. Fiscal year 1982-83 expenditures were overstated by $1,834 and fiscal year 1983-84 expenditures were understated by $1,894 as a result of these three errors.

2. Bookstore personnel made an error in recording a refund to a student for books returned. The refund was

recorded as an expenditure rather than as a revenue abatement.

3. We noted two instances of duplicate payments for bookstore purchases. One duplicate payment resulted because a prepayment was required for goods ordered; when the goods were received, another payment was made based on the invoice. The second duplicate payment resulted from the invoice being entered into the accounts payable system twice, once using the invoice number and once under the related purchase order number. When the corresponding check was written it was for twice the amount it should have been. In both instances the vendor returned the duplicate payment.

The college should consider reviewing the bookstore transactions in the same manner as other transactions in order to prevent and detect the types of errors discussed above.

RECOMMENDATION #10

WE RECOMMEND THE COLLEGE IMPLEMENT CONTROLS TO PREVENT OR DETECT ERRORS IN BOOKSTORE TRANSACTIONS.

ELECTRONIC DATA PROCESSING

As part of our audit, we examined the electronic data processing (EDP) operations at Flathead Valley Community College (FVCC). We reviewed the operations in order to provide FVCC management with suggestions to improve controls over the operations. The following sections discuss our audit findings related to EDP security and controls in effect during fiscal years 1982-83 and 1983-84.

System Access

On the System 34 computer, there are five levels of access defined:

1. Master Security Officer - controls all of the security on the machine. Can add, change, or delete any user. Has access to all user passwords.

2. Security Officer - can add, delete, or change security restrictions for any user except the master security officer or another security officer. Has access to all user passwords except the master security officer or another security officer.

3. Console Operator - authorized to use the machine's master terminal.

4. Subconsole Operator - can direct the printing of output at a terminal.

5. Workstation Operator - can operate a terminal.

Currently there are three major weaknesses concerning the assignment of access to the system. These weaknesses are discussed below.

Business Manager Access

The business manager is responsible for the security of the financial management system. However, the business manager is designated as a console operator on the machine's access system. The master security officer and the two security officers have access to the business manager's password. This severely compromises the security over the financial management system. Instead of one person controlling the system, four people have the ability.

We believe two appropriate alternatives exist. The computer center manager could be designated as both master security officer and financial system security officer. Then the business manager could periodically review security officer activity. Alternately, the business manager could be master security officer. The business manager would not be unduly burdened since the security officers would manage day-to-day system security. Either alternative would place the financial system securely in one person's hands and fix the responsibility for the system.

Consultant Access

FVCC has a contract with a consultant to develop computer programs. Our audit revealed that this person was designated as a security officer during the two fiscal years under audit.

A security officer has access to much of the computer's resources and can add, change, delete users. We believe these functions are inappropriate for a consultant. College officials indicated that the consultant's level of access has been changed to Console Operator.

Deletion of Users

A former FVCC instructor was still an authorized user on the system. The instructor had not been working for the college for at least two academic quarters. When asked about this, computer center personnel stated that FVCC routinely deletes all of the student users at the end of the quarter. However, they have no such policy for staff.

When authorized users terminate employment, their access to the system should be deleted to reduce the potential for computer abuse. College officials indicated that procedures will be established to notify data processing of all terminations or changes in authorization.

RECOMMENDATION #11

WE RECOMMEND THE COLLEGE RESTRICT COMPUTER USERS' ACCESS TO THAT NECESSARY FOR THEIR FUNCTIONS.

System Security

The System 34 has the ability to control access to specific information in two ways once a user is logged onto the system:

1. Menu security - a user is given a list of tasks he can perform and the user cannot perform any others.

2. Resources security - the ability of each user to read or update a computer file can be designated.

Currently, FVCC uses only menu security. The following sections discuss suggestions for improvements to security.

Menu Security

Within the System 34, there is a table which shows the authorized users. One of the items in this table tells which users are bound to menus and which users can bypass menu security.

During our audit period, FVCC's system allowed six people to bypass menu security. These people are the computer center manager, the computer operator, the business manager, a consultant, an instructor, and a former instructor. The ability to bypass menu security opens up most of the system to the user. Thus, the number of people who may bypass menu security should be minimized.

Resource Security

As noted above, the ability to bypass menu security opens up the system to the user. The computer manufacturer has provided a second type of control to compensate. Individual computer files may be protected using a facility called resource security, which FVCC currently does not use. Resource security allows the master security officer to define who owns a file. Then only the master security officer and the owner can grant another user access to the file.

RECOMMENDATION #12

WE RECOMMEND THE COLLEGE UTILIZE RESOURCE SECURITY IN ADDITION TO MENU SECURITY FOR ITS IMPORTANT FILES.

EDP Policies and Procedures

We reviewed FVCC's EDP policies and operations and found several areas in which we believe improvements could help system integrity and efficiency. These include:

1. Operator training - At the time we reviewed the EDP operations at FVCC, the assistant computer operator was filling in for the computer manager. Our discussions with the assistant computer operator indicated a lack of knowledge in certain areas. The assistant needs more training to adequately fill the role of manager in the manager's absence.

2. Review for unauthorized activity - Currently a review for unauthorized activity or systems problems is not routine or documented. The computer center manager should perform and document such a review daily.

3. Incident log - The computer center does not maintain any record of problems noted or their resolution. Many computer operations maintain an incident log for this purpose. The incident log is a hand-kept ledger of problems/events and their subsequent resolution. Patterns of machine problems or abuse can be detected.

4. General policies - The computer center manager drafted a set of general policies and procedures relating to EDP at the college in mid-1983. The manual has not been formally approved or widely distributed. The manual should be distributed so that all users have access to a manual.

5. Applications documentation - The quality of documentation related to computer programs used at FVCC varies depending on who developed the software. Programs developed by the computer center manager are not well documented; programs developed by consultants are better documented. Documentation is the link between the person who develops the system and the person who maintains it. Better documentation generally means easier maintenance. The college should ensure programs are well documented.

6. Scheduling EDP processing - Computer processing at FVCC is on demand. Large jobs, such as payroll, are not scheduled. The current operating environment does not require job scheduling. However, as the college grows, management should consider job scheduling before upgrading to a larger system as scheduling work tends to take some burden off the computer center and allows a more efficient utilization of the computer facilities.

7. Sharing User IDs - There are two user identifications which have special authority but which do not have a responsible person listed. Responsibility for actions is difficult to establish if users and IDs are not uniquely related. The college should develop a policy against shared identifications.

RECOMMENDATION #13

WE RECOMMEND THE COLLEGE DEVELOP POLICIES AND PROCEDURES FOR THE EDP OPERATION WHICH WILL IMPROVE SYSTEM INTEGRITY AND EFFICIENCY.

FEDERAL GRANTS

Introduction

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget "Circular A-21 and A-110" and the March 1984 student aid audit guide prescribed by the U.S. Department of Education. Circular A-110 provides for audits of financial operations, including compliance with certain provisions of federal law and regulations.

The Flathead Valley Community College was a grantee receiving the federal funds listed on page 44. The purpose of our audit was to determine whether costs charged to federal grants and contracts were reasonable and allowable. We also reviewed administrative controls and management systems in effect to determine if they were adequate to ensure compliance with federal regulations and with grant and contract terms and conditions.

Based on our examination, we found, for the items tested, the college complied with the material terms and conditions of agreements with federal and state agencies except as discussed below. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Untimely Reports

We reviewed performance reports, financial status reports and evaluation reports for timely submission to the federal granting agencies. Of the ten reports reviewed, seven were submitted past the due date. The lateness of the reports varied from 11 days to 7 months. The grants and subgrants affected were Title III,

Special Services, Job Training Partnership Act, and Contemporary Office Education.

RECOMMENDATION #14

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES THAT WILL RESULT IN TIMELY SUBMISSION OF FEDERAL REPORTS.

Student Financial Aid (SFA)

During our audit of the financial aid programs administered by the college, we noted several items of noncompliance with SFA regulations.

Repayment and Refunds

The financial aid office has not developed standard criteria for determining which students need to make repayments to the student aid funds when they officially withdraw from school. The financial aid director makes the decision on a case-by-case basis. We noted two students who were required to make repayments. The students withdrew from school during the school's refund period. Because they had received financial aid the tuition and fee refund should have reverted to the student aid accounts. In both cases the student received the refund because the financial aid office was not notified of the withdrawal and the business office was unaware that the students had received financial aid. College personnel discovered the errors and subsequently billed the students.

The college has a withdrawal form which includes asking the students if they have received financial aid. The business office should review all students' withdrawal forms to determine whether the student or the financial aid accounts should receive the refunds. If a student has received financial aid which was used to pay tuition and fees, any refund of tuition and fees should be returned to the appropriate financial aid accounts.

RECOMMENDATION #15

WE RECOMMEND THE COLLEGE:

A. ESTABLISH STANDARD WRITTEN CRITERIA FOR DETERMINING WHICH STUDENTS ARE REQUIRED TO MAKE REPAYMENTS TO THE FINANCIAL AID ACCOUNTS.

B. IMPLEMENT PROCEDURES TO ENSURE REFUNDS OF TUITION AND FEES ARE REMITTED TO THE APPROPRIATE PERSON OR FINANCIAL AID ACCOUNT.

Pell Grant Validation

The financial aid director is required by the U.S. Department of Education to perform validation procedures on certain student aid reports (SAR). One of the procedures is to compare the amount of income tax paid as recorded on the individual's tax return to the amount recorded on the SAR.

For one of ten SARs tested, the tax amount, as validated by the financial aid director, did not match the proper line item on the tax return. We were unable to refigure the student aid index because the student's SAR should have been sent back to the Pell processor for reevaluation. Therefore, we could not determine whether or not the student's grant was overawarded or underawarded.

RECOMMENDATION #16

WE RECOMMEND THE COLLEGE PROPERLY VALIDATE THE STUDENT AID REPORTS AND FOLLOW UP DISCREPANCIES AS REQUIRED BY FEDERAL REGULATIONS.

INTERNAL CONTROL

We have examined the financial statements of Flathead Valley Community College for the two fiscal years ended June 30, 1984, and the related financial aid report for the fiscal year ended June 30, 1984. We issued our opinion dated December 21, 1984 on these statements. As part of our examination, we made a study

and evaluation of the systems of control of the college. Our study evaluated the systems as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue;
2. payroll;
3. expenditures and payables;
4. cash;
5. accounts receivable;
6. property, plant, and equipment;
7. inventories;
8. contracts and grants; and
9. student financial aid

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our audit procedures. We applied alternative audit tests to cash, accounts receivable, inventories, and property, plant, and equipment because the audit could be performed more efficiently by expanding substantive audit work. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of Flathead Valley Community College is responsible for establishing and maintaining systems of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluations should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the systems. Accordingly, we do not express an opinion on the systems of controls used by Flathead Valley Community College. However, our study disclosed conditions that could result in financial statement errors that would be difficult to detect. These conditions are related to cash, discussed on page 23, and document approval, discussed on page 24.

These conditions were considered in determining the nature, timing, and extent of our audit tests of the financial statements and this report does not affect our opinion on the financial statements.

The preceding five paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Cash

During fiscal year 1983-84, three college savings accounts had authorized signers who are no longer associated with the college. Tellers in banks do not always require that passbooks be presented when funds are withdrawn; therefore, cash in the accounts is more susceptible to loss.

College officials indicated that the unauthorized signers have now been removed from the lists. However, the college should review authorized signatures periodically and update as necessary to adequately safeguard cash.

RECOMMENDATION #17

WE RECOMMEND THE COLLEGE REVIEW AUTHORIZED SIGNATURES PERIODICALLY AND UPDATE THEM AS NECESSARY.

Document Approval

Our tests of college transactions indicate the business office could improve its document approval procedures. We noted six adjusting journal entry documents, two purchase requisitions, and four cash receipt entry documents which had no authorizing signatures. We also noted two business office purchases which were requisitioned and approved by the same person.

The person authorizing the transaction should not be the person requesting the transaction. All documents should be reviewed and approved by an independent person authorized to approve documents. This will help ensure the transactions are reasonable and authorized.

RECOMMENDATION #18

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES WHICH WILL ENSURE TRANSACTIONS ARE REVIEWED AND AUTHORIZED BEFORE THEY ARE PROCESSED.

LIBRARY RESOURCES

Library resources consist of books, chairs, desks, cabinets, a photocopier, and audiovisual equipment. The college has recorded $88,842 of library resources in its accounting records. This balance is materially misstated due to the lack of appropriate accounting procedures for the books.

At June 30, 1984, the business office was notified of the amount of book purchases made for the library during the year, but was not informed of the amount of book deletions made during the year. This has the effect of overstating assets. However, we noted the accounting records for the library resources had not been updated for the period from July 1, 1982 to June 30, 1983. As a result of these issues, we estimated the Library resources to be understated by approximately $16,600.

College officials indicated that the library will be implementing a new system for tracking the library books and cost information should be available.

RECOMMENDATION #19

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES TO ADEQUATELY ACCOUNT FOR LIBRARY RESOURCES.

ACCOUNTS RECEIVABLE

Flathead Valley Community College maintains a subsidiary detail ledger system for accounts receivable resulting from deferrals of tuition and fees and loans to students. These receivables totalled $47,867 at June 30, 1984. The current system of accounting for these receivables relies heavily on the memory of business office officials from year to year for proper updating. The subsidiary system is completely separate from the primary accounting system. At fiscal year-end a transaction must be recorded on the accounting system to bring the general ledger up-to-date with the subsidiary ledger. The college should implement a system which will allow for updating the general ledger at the same time the subsidiary ledger is updated.

The current individual accounts receivable include many which have been outstanding for more than a year. Accounts receivable outstanding for more than one year are $893 in the Loan Fund, $15,464 in the Current Unrestricted Fund, and $3,866 in the Unexpended Plant Fund. This indicates that the college's collection policies and procedures are not adequate. The business office attempts to make quarterly billings. However, the college does not maintain the current addresses of students who owe money to the college once these students have left school. Billing on a monthly basis would allow the business office to determine whether addresses are correct on a more timely basis. The college should review its accounts receivable billing and file maintenance procedures and develop and implement policies and procedures which will help ensure that accounts receivable are valid and collectible.

RECOMMENDATION #20

WE RECOMMEND THE COLLEGE DEVELOP PROCEDURES TO ADEQUATELY ACCOUNT FOR AND BILL ACCOUNTS RECEIVABLE.

GENERAL LEDGER SUPPORT

In addition to the problems described in the previous section, the college's detailed list of accounts payable does not agree to general ledger balances for accounts payable to vendors and accounts receivable related to credit memos from vendors. The differences result from errors made in previous years which were not corrected when the college converted to its present accounting system. The total amount of the error is approximately $3,000. The general ledger balances should be supported by detailed lists to ensure the general ledger contains accurate information for management purposes.

RECOMMENDATION #21

WE RECOMMEND THE COLLEGE MAINTAIN DETAILED SUPPORT FOR GENERAL LEDGER BALANCES OF ACCOUNTS RECEIVABLE AND PAYABLE.

PRIOR AUDIT RECOMMENDATIONS

The fiscal years 1979-80 and 1980-81 audit of Flathead Valley Community College was performed by a public CPA firm. The firm also performed an audit for the same period of the college's federal financial aid programs which was issued under the same cover. The audit of the college's federal financial aid programs for fiscal years 1981-82 and 1982-83 was also conducted by a public CPA firm under contract with our office. The reports contained 21 individual recommendations still applicable to the college. The college implemented 15, partially implemented 5, and did not implement 1. The college concurred with all recommendations still applicable.

The recommendation not implemented deals with financial aid accounting (page 3). One of the partially implemented recommendations deals with bookstore accounting (page 12). Other recommendations partially implemented deal with adjusting journal entries, property, plant, and equipment, fund classifications, and financial reports to the U.S. Department of Education and have been communicated to management.

AUDITOR'S REPORT
AND COLLEGE FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report (page 28) is intended to convey to the reader of the financial statements the degree of reliance that can be placed on the amounts presented. We issued an unqualified opinion on the financial statements. An unqualified opinion means the reader may rely on the fairness of the amounts presented in the financial statements when analyzing the college's operations.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial statements of Flathead Valley Community College as of June 30, 1984, and for each of the two fiscal years then ended as shown on pages 30 through 41. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to in the first paragraph, present fairly the financial position of Flathead Valley Community College at June 30, 1984 and the changes in fund balances funds and the current funds revenues, expenditures, and other changes for the two fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The accompanying Schedule of Grant and Contract Expenditures, and Schedules of Student Full-Time Equivalents are presented for additional analysis and disclosure purposes in compliance with "Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations" and the Department of Education student aid audit guide, March 1984, and are not a required part of the combined financial statements for Flathead Valley Community College. These schedules have been subjected to the

auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

December 21, 1984

Approved:

Robert R. Ringwood
Legislative Auditor

FLATHEAD COMMUNITY COLLEGE
BALANCE SHEET
JUNE 30, 1984

ASSETS

RENT FUNDS:		
estricted:		
eral Operating:		
sh		$ 606,999
counts Receivable	$23,986	
ess: Allowance Eor Doubtful Accounts	(11,993)	11,993
ner Accounts Receivable		3,075
e from Other Funds		58,685
epaid Expenses		11,529
otal General Operating		$ 692,281
tricted:		
sh		$ -0-
counts Receivable		16,042
e from Federal Government		118,935
e from State Government		856
e from Other Funds		293
vestments		6,686
Total Restricted		$ 142,812
ignated:		
sh		$ 86,729
counts Receivable		7
Total Designated		$ 86,736
iliary Enterprises:		
sh		$ -0-
counts Receivable		29,420
ventories		71,553
Total Auxiliary Enterprises		$ 100,973
Total Current Funds		$1,022,802
N FUNDS:		
sh		$ 520
counts Receivable	$ 1,836	
ess: Allowance for Doubtful Accounts	(893)	943
Total Loan Funds		$ 1,463

LIABILITIES AND FUND BALANCES

CURRENT FUNDS:	
Unrestricted:	
General Operating:	
Accounts Payable	$ 51,102
Accrued Liabilities	22,377
Deferred Revenue	15,220
Unfunded Leave Liability (Includes Restricted See Note 8)	169,976
Due to Other Funds	278
Fund Balance	433,328
Total General Operating	$ 692,281
Restricted:	
Cash Overdraft (See Note 10)	$ 52,398
Accounts Payable	30,099
Accrued Expenditures	191
Deferred Revenue	14,836
Due to Other Funds	453
Fund Balance	44,835
Total Restricted	$ 142,812
Designated:	
Accounts Payable	$ 3,886
Deferred Revenues	2,668
Accrued Expenditures	522
Accrued Encumbrances	21
Due to Other Funds	53,502
Fund Balance	26,137
Total Designated	$ 86,736
Auxiliary Enterprises:	
Cash Overdraft (See Note 10)	$ 60,578
Accounts Payable	6,279
Due to Other Funds	4,744
Accrued Expenditures	677
Accrued Encumbrances	103
Fund Balance	28,592
Total Auxiliary Enterprises	$ 100,973
Total Current Funds	$1,022,802
LOAN FUNDS:	
Fund Balance	$ 1,463
Total Loan Funds	$ 1,463

notes to the financial statements are an integral part of this statement.

FLATNEAD VALLEY COMMUNITY COLLEGE
8ALANCE SHEET
JUNE 30, 1984

ASSETS

S:		
:		$ 117,549
Receivable	$5,996	
lowance for Doubtful Accounts	(2,998)	2,998
Unexpended		$ 120,547
d Replacements:		
Other Funds		
Renewals and Replacements		$ -0-
in Plant:		
ldings and other Improvements		$1,263,874
		1,027,835
esources		88,842
Investment in Plant		$2,380,551
Plant Funds		$2,501,098
OS:		
		$ 11,932
Receivable		1,117
ts		1,560
Agency Funds		$ 14,609

LIA8ILITIES AND FUND BALANCES

PLANT FUNDS:	
Unexpended:	
Accounts Payable	$ 97
Deferred Revenue	3,527
Fund Balance	116,923
Total Unexpended	$ 120,547
Renewals and Replacements:	
Fund Balance	
Total Renewals and Replacements	$ -0-
Investment in Plant:	
Notes and Contracts Payable	$ 633,873
Net Investment in Plant	1,746,678
Total Investment in Plant	$2,380,551
Total Plant Funds	$2,501,098
AGENCY FUNDS:	
Accounts Payable	$ 2,536
Deferred Revenues	995
Fund Balance	11,078
Total Agency Funds	$ 14,609

to the financial statements are an integral part of this statement.

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1984

	UNRESTRICTED					
	General Operating	Designated	Auxiliary Enterprise	Restricted	1984 Total	1983 Total
ENUES:						
eral Operating:						
uition and Fees	$ 355,322	$33,587		$ 24,381	$ 413,290	$ 334,600
tate Appropriations	1,414,040				1,414,040	1,185,178
landatory Levy	992,236			81,092	1,073,328	963,145
'ermissive Levy	74,379				74,379	
Government Grants and Contracts	12,409			621,128	633,537	509,650
Gifts and Private Grants		300		17,623	17,923	1,323
Other Sources	42,327	1,700		930	44,957	29,063
Sales and Services or Designated and Auxiliary Enterprises		34,263	$141,879		176,142	132,586
Total Revenues	2,890,713	69,850	141,879	745,154	3,847,596	3,155,545
PENDITURES AND MANDATORY TRANSFERS						
DUCATIONAL AND GENERAL:						
Instruction	1,268,684	54,559		351,340	1,674,583	1,287,429
Research		39,819		12,319	52,138	90,296
Public Service	337,446	366		890	338,702	272,939
Academic Support	352,911			99,064	451,975	357,345
Student Services	414,506	(25,805)		18,502	407,203	357,155
Institutional Support	294,961			14,412	309,373	231,570
Operation and Maintenance of Plant	34,172			248,627	282,799	263,805
Scholarships and Fellowships, Aid						
Total Educational and General Expenditures	2,702,680	68,939	-0-	745,154	3,516,773	2,860,539
Non-Mandatory Transfers	57,345	-0-	-0-	-0-	57,345	29,220
Total Educational and General	2,760,025	68,939	-0-	745,154	3,574,118	2,889,759
XILIARY ENTERPRISES:						
Expenditures	-0-	-0-	144,121	-0-	144,121	138,255
Total Auxiliary Enterprises	-0-	-0-	144,121	-0-	144,121	138,255
tal Expenditures and Mandatory Transfers	2,760,025	68,939	144,121	745,154	3,718,239	3,028,014
her Transfer and Additions (Deductions)						
Excess of Restricted Receipts over Revenues				11,270	11,270	
Unfunded Leave Liability - Unrestricted	(25,382)		109		(25,273)	
Unfunded Leave Liability - Restricted	(3,103)				(3,103)	
Provision for Doubtful Loans	(12,002)				(12,002)	
et Increase (Decrease) in Fund Balance	$ 90,201	$ 911	$ (2,133)	$ 11,270	$ 100,249	$ 127,531

ntrafund sales of $49,813.26 in fiscal year 1984 and $45,610.33 in fiscal year 1983 have been eliminated.

he notes to the financial statements are an integral part of this statement.

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1984

	CURRENT FUNDS					PLANT FUNDS		
	UNRESTRICTED							
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Unexpended	Renewal And Replacement	Investment In Plant
AND OTHER ADDITIONS:								
ricted Current Funds Revenue	$2,890,713	$69,850	$141,879					
n and Fees Restricted				$ 24,241				
ory Levy Restricted				91,446				
l Government Grants and Contracts Restricted				500,527				
and Local Grants and Contracts				120,602				
e Gifts, Grants, and Contracts Restricted				17,953				
ng Fees						$ 3,902		
ments						4,771		
ed for Plant Facilities								$ 717,240
ment of Indebtedness								47,093
Sources				1,655		1,452		
al Revenues and Other Additions	2,890,713	69,850	141,879	756,424	$ -0-	10,125	$ -0-	764,333
URES AND OTHER DEDUCTIONS:								
ional and General Expenditures	2,702,680	68,939		745,154				
ary Enterprises			144,121					
ion for Doubtful Loans	12,002				111	5,411		
ed for Land Aquisition						50,000		
ed for Plant Facilities and Other Expenditures						64,859		
ion From Plant Facilities								96,407
ent of Debt								375,000
ed Leave Liability - Unrestricted	25,382		(109)					
ed Leave Liability - Restricted	3,103							
al Expenditures and Other Deductions	2,743,167	68,939	144,012	745,154	111	120,270	-0-	471,407
S AMONG FUNDS:								
ndatory Transfers	57,345					(57,345)		
ls and Replacements								
al Expenditures and Transfers	2,800,512	68,939	144,012	745,154	111	62,925	-0-	471,407
ease (Decrease) for the Year	90,201	911	(2,133)	11,270	(111)	(52,800)	-0-	292,926
ances at Beginning of the Year	420,138	25,429	31,247	25,569	1,574	169,723		1,450,390
ar Adjustments	520	(203)	(522)	7,996				3,362
Leave Liability - Unrestricted (See Note 7)	(73,596)							
Leave Liability - Restricted (See Note 7)	(3,935)							
al Fund Balance - End of the Year	$ 433,328	$26,137	$ 28,592	$ 44,835	$1,463	$116,923	$ -0-	$1,746,678

s to the financial statements are an integral part of this statement.

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FISCAL YEAR ENDED JUNE 30, 1983

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total 1983
REVENUES					
Tuition & Fees	$ 346,191	$22,937		$ 22,158	$ 391,286
State Appropriations	1,185,178				1,185,178
Mandatory Levy	874,088			79,088	953,176
Government Grants & Contracts	18,344			505,993	524,337
Gifts & Private Grants				1,323	1,323
Other Sources	25,024	28,847			53,871
Sales & Sources of Designated & Auxiliary Enterprise			$132,586		132,586
TOTAL REVENUES	2,448,825	51,784	132,586	608,562	3,241,757
EXPENDITURES & MANDATORY TRANSFERS					
Education & General:					
Instruction	1,039,219	37,848		295,344	1,372,411
Research		4,021		827	4,848
Public Service	272,218			721	272,939
Academic Support	267,001	16,061		80,719	363,781
Student Services	365,146	(23,950)		1,890	343,086
Institutional Support	224,120			7,450	231,570
Operation & Maintenance of Plant	42,194			221,611	263,805
Scholarships, Fellowships, & Aid	2,209,898	33,980		608,562	2,852,440
Educational & Annual Exp.	2,209,898	33,980		608,562	2,852,440
Total Educational & General					
Auxiliary Enterprises:					
Expenditures			138,255		138,255
Total Auxiliary Enterprises			138,255		138,255
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	2,209,898	33,980	138,255	608,562	2,990,695
OTHER ADDITIONS (DEDUCTIONS)					
NonMandatory Tranfers	(80,400)			(6,570)	(86,970)
Excess of Restricted Receipts over Transfers to Revenue				11,033	11,033
Unfunded Leave Liability - Unrestricted	(20,428)		(8)		(20,436)
Unfunded Leave Liability - Restricted	(1,353)				(1,353)
NET INCREASE (DECREASE) IN FUND BALANCE	$ 136,746	$17,804	$ (5,677)	$ 4,463	$ 153,336

The notes to the financial statements are an integral part of this statement.

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1983

	CURRENT FUNDS					PLANT FUNDS		
	Unrestricted							
	General Operating	Designated	Auxiliary	Restricted	Loan Funds	Unexpended	Renewals & Replacements	Investment in Plant
Revenues and Other Additions:								
Unrestricted Current Funds Revenue	$2,448,825	$51,784	$132,586					
Tuition and Fees Restricted				$ 23,222				
Mandatory Levy Restricted				89,057				
Federal Government Grants & Contracts Restricted				423,770				
State Government Grants & Contracts Restricted				82,223				
Private Gifts, Grants, and Contracts Restricted				1,323				
Building Fees								
Investments						$ 9,411		
Purchase of Land								$ 378,800
Expended for Plant Facilities (Net of Adjustments to Fixed Assets Inventory)								64,740
Retirement of Indebtedness								16,362
Total Revenues and Other Additions	2,448,825	51,784	132,586	619,595		9,411		459,902
Expenditures and Other Deductions:								
Educational and General Expenditures	2,209,898	33,980		608,562				
Auxiliary Enterprises			138,255					
Provision for Doubtful Loans					$564			
Expended for Land Acquisition						100,000		
Expended for Plant Facilities & Other Expenditures						11,713	$1,608	
Disposal of Plant Facilities								78,022
Incrument of Debt								278,800
Unfunded Leave Liability								
Unrestricted	20,428		8					
Unfunded Leave Liability Restricted	1,353							
Total Expenditures & Other Deductions	2,231,679	33,980	138,263	608,562	564	111,713	1,608	356,822
Transfers Among Funds:								
Non-Mandatory Transfers	80,400			6,570		(86,970)		
Renewals and Replacements						1,608	(1,608)	
Total Expenditures and Transfers	2,312,079	33,980	138,263	615,132	564	26,351	-0-	-0-
Net Increases (Decrease) for the Year	136,746	17,804	(5,677)	4,463	(564)	(16,940)	-0-	103,080
Fund Balances at Begining of Year	215,342	4,635	43,045	114,276		184,687		1,347,310
Prior Year Adjustments	110,227	2,990	(6,020)	(93,170)		1,976		-0-
Unfunded Leave Liability (Unrestricted)	(38,244)		(101)					
Unfunded Leave Liability Restricted	(3,933)							
Fund Balance at End of Year	$ 420,138	$25,429	$ 31,247	$ 25,569	$-0-	$169,723	$-0-	$1,450,390

The notes to the financial statements are an integral part of this statement.

FLATHEAD VALLEY COMMUNITY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund Accounting

The accounts of the college are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use.

Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements.

The common characteristics of the funds contained in the various fund groups are as follows:

Current Funds

The current funds group includes economic resources expendable in performing the primary objectives of the college, i.e., Instruction, Research and Public Service. The current funds group has two basic distinct subgroups: unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the college.

Designated - utilized for educational related service activities which are self-supporting.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty and staff.

Restricted Current Funds are available for financing current operations, but limited by external donor's and funding agencies to specified purpose, programs, or departments.

Student Loan Funds

The resources from this group of funds are available to students for short term emergency loans.

Plant Funds

Plant Funds are separated into four distinct self-balancing subgroup accounts:

Unexpended Plant - utilized for long-term institutional assets.

Renewal and Replacement - utilized for long-term institutional asset maintenance. This fund was discontinued in fiscal year 1982-83.

Retirement of Indebtedness - utilized for debt servicing and retirement of indebtedness. This fund is not presently used by the college.

Investment in Plant - denotes the cost of long-term institutional assets and related liabilities and equity.

Agency Funds

Agency funds account for funds held in a fiduciary or custodian capacity for individuals, faculty, staff and organizations. These accounts consist of assets and liabilities and do not have a fund balance as do all other fund groups.

Inventories

The bookstore inventory is valued at cost (first-in, first-out method).

Investments

Investments are carried at cost (or, in the case of gifts, fair market value at date of receipt), which approximate market value at June 30, 1984.

Unearned Tuition and Fees

Summer School tuition and fee revenues and related expenses are deferred at June 30 and recorded as revenue and expense in the succeeding fiscal year.

2. RETIREMENT PLANS

Full-time employees of Flathead Valley Community College are members of the Montana Public Employee's Retirement System or Montana Teacher's Retirement System plans, administered by the Department of Administration. Contributions for fiscal years 1982-83 and 1983-84 were as follows:

	Fiscal Year 1982-83	Fiscal Year 1983-84
PERS	$25,926.53	$ 33,670.58
TRS	63,919.31	87,118.23
TOTAL	$89,845.84	$120,788.81

3. COMMITMENTS AND CONTINGENCIES

At present litigation cases which may result in uninsured liability will most probably not exceed $10,000.

4. ENCUMBRANCES

State Budget and Accounting regulations permit reporting expenditures for items on order at June 30, whether or not received.

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

At June 30, 1984, the college General Operating Funds had encumbered $53,840 for items not received. The corresponding liability and expenditure are not included in the accompanying financial statements.

5. DEPRECIATION

No provision has been made for depreciation of Plant facilities.

6. FUND RECLASSIFICATIONS

The Theatre Fund, the Library Copier Fund and the Audio-visual Equipment Fund have been reclassified from the Agency Fund to the designated fund to comply with C.U.B.A. reporting requirements.

Several Scholarship Funds have been reclassified from the Agency Fund to the Restricted Fund because the college is responsible for the awarding of the scholarships. Only scholarships that the donor retains control of the awarding of funds, remain in the Agency Fund.

7. BUILDING FEES

Building fee revenues are recorded in the General Operating Fund and are transferred to the Unexpended Plant Fund as non-mandatory transfers.

8. COMPENSATED ABSENCES

Eligible college employees earn 8 hours sick and 10 hours annual leave for each month worked. The rate of annual leave accrual increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual.

Twenty-five percent of sick leave earned after July 1, 1971 and one hundred percent of annual leave vests to each employee as earned and if not used during employment is paid upon termination.

Sick and annual leave is utilized on a first-in, first-out basis.

Previous financial statements did not include sick leave liability accrued by the faculty. A recent Supreme Court decision determined that faculty should get reimbursed for unused sick

leave and therefore sick leave for faculty is reported on the financial statements. Sick leave earned by faculty prior to fiscal year 1984 has been reported on the financial statements as a prior year adjustment.

Leave liability of the Restricted Funds is reported in the Current Unrestricted Fund. This amounts to $12,324.

9. LEASES

Flathead Valley Community College is leasing Montana Hall from School District #5. The lease is renegotiated for each fiscal year.

Lease payments for 1982-83 were $13,975
Lease payments for 1983-84 were $14,814
Lease payments for 1984-85 were $16,296

10. CASH OVERDRAFT

The college's cash accounts are pooled into one account maintained by the Flathead County Treasurer. While individual accounts within the college's accounting records may be in an overdraft situation, the total cash balance is positive. At June 30, 1984, the total cash balance was $710,753.

11. LONG TERM INDEBTEDNESS

The College has the following long term debts outstanding by building:

Melton Hall - Concordia College

11/83 - 11/93 Payment $2,520.83 per month interest only

12/93 - 10/08 Payment $3,125.65 per month principle and interest

$275,000.00 at 11% per annum

Balance June 30, 1984 $275,000.00

Student Development Center - Valley Bank (R & R Development)

11/83 - 10/88 Payment $2,124.72 per month

$100,000.00 at 10% per annum

Balance June 30, 1984 $89,363.00

Land - First Interstate Bank (Jack & Evelyn Hutton, Jr.)

$50,000.00 annual payment

11/83 first payment 11/92 final payment

$278,800.00 at 10% per annum

Loan Balance June 30, 1984 $256,680.00

Heritage Hall - Valley Bank (Rygg Ford Sales)

$1,000.00 per month from July 20, 1985 through June 20, 1976 (12 payments)

$1,209.00 per month from July 20, 1976 through June 20, 1985 (108 payments)

$95,000.00 at 8½% per annum

Loan Balance June 30, 1984 $12,830.00

FLATHEAD VALLEY COMMUNITY COLLEGE
JUNE 30, 1984
SCHEDULE OF STUDENT FULL-TIME EQUIVALENT

Full-time equivalent (FTE) student enrollment is computed by dividing the undergraduate quarterly credit hours by 15 as of the close of the 15th instructional day of classes except for summer which is as of the end of the term.

QUARTER:

Summer 1983:	FTE
Student FTE funded from Unrestricted Funds	164
Student FTE funded from Restricted Funds	0
Total Student FTE	164

Autumn 1983:	
Student FTE funded from Unrestricted Funds	745
Student FTE funded from Restricted Funds	25
Total Student FTE	770

Winter 1984:	
Student FTE funded from Unrestricted Funds	761
Student FTE funded from Restricted Funds	16
Total Student FTE	777

Spring 1984:	
Student FTE funded from Unrestricted Funds	679
Student FTE funded from Restricted Funds	16
Total Student FTE	695

FLATHEAD VALLEY COMMUNITY COLLEGE
JUNE 30, 1983
SCHEDULE OF STUDENT FULL-TIME EQUIVALENT

Full-time equivalent (FTE) student enrollment is computed by dividing the undergraduate quarterly credit hours by 15 as of the close of the 15th instructional day of classes except for summer which is as of the end of the term.

QUARTER:

Summer 1982:	FTE
Student FTE funded from Unrestricted Funds	126
Student FTE funded from Restricted Funds	2
Total Student FTE	128

Autumn 1982:	
Student FTE funded from Unrestricted Funds	781
Student FTE funded from Restricted Funds	11
Total Student FTE	792

Winter 1983:	
Student FTE funded from Unrestricted Funds	785
Student FTE funded from Restricted Funds	14
Total Student FTE	799

Spring 1983:	
Student FTE funded from Unrestricted Funds	703
Student FTE funded from Restricted Funds	14
Total Student FTE	717

[illegible] HEAD [illegible] COMMUNITY COLLEGE
[illegible] OF GRA[illegible] CONTRA[illegible] EXPENDITURE
[illegible]R THE [illegible] YEAR [illegible]ING JUNE30, 1982, 1983, [illegible] 1984

[illegible]TING AGENCY

[illegible]ant Number	Grant Title	Authorized	Fiscal Year 1981-82	Fiscal Year 1982-83	Fiscal Year 1983-84
DEPARTMENT OF EDUCATION					
8403562	Pell	$ 164,78[illegible]			$164,782
8303562	Pell	158,908		$145,1[illegible]	
8203562	Pell	131,936	$129,[illegible]		
84 2416	College Work Study	33,688			28,501
831[illegible]416	College Work Study	28,377		26,479	[illegible]
8212416	College Work Study	33,688	31,489	2,199	
8112416	College Work Study FY 80-81		1,210		
8437416	Supplemental Education Opportunity Grant [illegible]ial Year	23,988			23,989
8332416	Supplemental Education Opportunity Grant [illegible]ial Year	23,989		23,388	
8232416	Supplemental Education Opportunity Grant [illegible]ial Year	25,030	25,030		
844 16	Supplemental Education Opportunity Grant - [illegible]ontinuing Year	7,196			7,318
8834216	Supplemental Education Opportunity Grant - [illegible]ontinuing Year	7,196		6,300	
[illegible]4.16	Supplemental Education Opportunity Grant - [illegible]ontinuing Year	6,155	6,1[illegible]4		
08312446	Veterans Cost-of-Instruction Program	1,376			
08212459	Veterans Cost-of-Instruction Program	1,890		1,890	
08112481	Veterans Cost-of-Instruction Program	2,007	2,0[illegible]		
08201542	Title III	114,992			91,648
08[illegible]1542	Title III	162,859		134,949	17,5[illegible]9
08004357	Special Services	80,050			76,410
08004357	Special Services	80,050		69,348	
08004357	Special Services	83,386	83,386		
08251308	Library	890			890
08151341	Library	840		721	
08050284	Library	1,200	1,200		
	Library (Fiscal Year 198[illegible]-81 award year)	1,900	1,508		
[illegible]TANA OFFICE OF PUB[illegible] INSTRUCTION					
[illegible]-56-5802-05[illegible]5	Adult Basic Education State Grant	[illegible]			[illegible]
[illegible]-56-5802-0525	Adult Basic Education State Grant	8,300		8,290	
[illegible]-56-5802-0134	Adult Basic Education Federal Grant	[illegible],560			22,560
[illegible]-56-5802-0[illegible]34	Adult Basic Education Federal Grant	22,563		22,734	
[illegible]-56-5802-0[illegible]34	Adult Basic Education Federal Grant	35,380	24,318		
	Adult Basic Education - CETA	1,843	1,515		
[illegible]	Job Training Partnership Act FY83-84	[illegible],761			41,92[illegible]
[illegible]	Job Training Partnership Act FY82-83	46,628		13,587	[illegible],96
	CETA (world of work)	34,6[illegible]	,914	10,576	
[illegible]	CETA (World of Work)	28,648	8,683		
	Contemporary Office Occupations	97,4[illegible]			97,[illegible]
	Displaced Homemakers FY 83-84	8,[illegible]			[illegible]
	Displaced Homemakers FY 82-83	4,465			[illegible]
TANA DEPARTMENT OF LABOR					
	WIN (Work Incentive Grant) FY 81-82	,394	[illegible],[illegible]94		
	WIN (Work Incentive Grant) FY 80-81	9,06[illegible]	6,494		
TANA COMMISSIONER OF HIGHER EDUCATION					
	State Student Incentive Grant	6,273			[illegible]
	State College Work Study	9,688			[illegible],681
[illegible]TWEST AREA FOUNDATION					
	Computer Grant	[illegible]			[illegible]

AGENCY RESPONSES

Flathead Valley
Community College
Number One First Street East
Kalispell, Montana 59901 (406) 755-5222

RECEIVED
MAY 23 1985
MONTANA LEGISLATIVE AUDITOR

May 21, 1985

Mr. James Gillette
Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Gillett:

The following are our responses to the recommendations which were made in the audit report of Flathead Valley Community College:

AUDITOR'S RECOMMENDATION #1

A. Develop procedures to obtain reasonable forecasted cash needs for financial aid programs.
B. Develop procedures to ensure timely federal reports are submitted.
C. Utilize the letter-of-credit cash request system to fund federal programs.

COLLEGE RESPONSE

Late reporting contributes to untimely cash requests due to the fact that cash advances are not honored until reports are filed. Cash requirement estimates by the Financial Aid Director are helpful. Presently operating Spring Quarter 1985 with a cash advance received.

When the College converted the general ledger to the current Financial Management System, no computer programming was available for the reports required by the Financial Aid Director. With the Spring Quarter 1985 the financial aid checks are processed from the current financial management system with the programming required being completed by the in house Computer Director. The conversion shall significantly reduce the time required in completing financial aid reports. Previously the checks and reports were processed on a separate system, thus requiring time consuming reconciliations. Both systems are being maintained through current fiscal year to ensure accuracy and smooth conversion. With improvements to the system and more timely reporting made possible, the conversion to utilizing the letter of credit will be made. The Controller has been unable to attend any financial aid workshops that would be helpful with the changing requirements of financial aid.

AN EQUAL OPPORTUNITY INSTITUTION

AUDITOR'S RECOMMENDATION #2

A. Establish policies and procedures to control the recording and reporting of donations made to the college and to properly administer the expenditure of the donations.
B. Request the Foundation return those donations which were made to the college.

COLLEGE RESPONSE

Procedures are being established to assist the College in determining future donor intent to contribute resources in the name of the College or in the name of the Foundation. In many cases donors want their contributions to be deposited with the Foundation although frequently the checks are made out to the College. It is that reason we will contact donors not already contacted to further ascertain their intent as to whether their donation was for the College or for the Foundation. Once the final dollar amount has been determined, the Foundation will be asked to remit whatever appears to be due the College.

AUDITOR'S RECOMMENDATION #3

We recommend the College implement procedures to ensure annual leave is administered in accordance with state laws.

COLLEGE RESPONSE

The College has notified those employees with excess balances as of December 1984. The excess balances that were then not utilized within the 90 days will be removed from the records in compliance with state law.

AUDITOR'S RECOMMENDATION #4

We recommend the college account for Adult Education and Community Service courses separately.

COLLEGE RESPONSE

Effective with fiscal year 1984-85 the College has established a new fund to account for revenue and expenses in compliance with 20-7-702 MCA.

AUDITOR'S RECOMMENDATION #5

We recommend the College obtain formal approval from the Board of Trustees for all budget transfers.

COLLEGE RESPONSE

Budget transfers will be made a formal part of the monthly financial status sheet so that Trustees may approve all transfers. The process for budget transfer approvals will begin at the June 1985 regular Board meeting.

AUDITOR'S RECOMMENDATION #6

We recommend the College close the bank accounts or obtain authorization from the Board of Regents to maintain the accounts.

COLLEGE RESPONSE

The College has maintained a checking account for processing financial aid checks, and savings, and Certificate of Deposit accounts for the following: Margaret Clifford Library Fund, Student Assistance Fund and Ray Gardner Memorial Fund. Balances in the above mentioned savings and Certificate of Deposit accounts range from approximately $300 to $2,850. The financial aid checking account was required to process checks generated by the College's financial aid subsystem and account separately for federal funds. This system was discontinued in spring quarter of 1985. Financial aid checks will be processed through the County Treasurer's office and the bank account will be closed. The remaining accounts will be closed by June 30 of 1985, or at time of maturity of Certificates of Deposit.

AUDITOR'S RECOMMENDATION #7

We recommend the College review and revise procedures to ensure an accurate and supported FTE count in accordance with Commissioner's Office office policy.

COLLEGE RESPONSE

1. For the audit period, 83-84, documentation of withdrawals was done both by date stamped on the withdrawal form and by notation on the student registration card. As of 84-85, with the aid of a new computer system, there is additional documentation of withdrawals. The actual date of withdrawal is not entered and each roster generated will list this date on it. This new procedure will not take the place of the withdrawal form and adjustment to the hard copy of the registration form, but will provide additional information to verify date of withdrawal for auditing purposes.

2. We cannot explain from the standpoint of record keeping procedures how one student's credit hours appeared in the FTE count after a first week withdrawal. However, since Summer Session 84, a new computerized system for registration has been implemented which will assist in accuracy of reporting. Actual date of withdrawal is now entered and all registrations cancelled before the end of the

third week are removed from the system before the FTE reports are generated.

3. We were informed in September 1984 that, according to the legislative auditor's office, credits earned in "Z" and "N" (no grade and audit) grades should not be included in the FTE count.

   Action has been taken during the 84-85 school year to insure that these credits can be and will be deleted from the FTE counts. Faculty and administration have agreed to eliminate the "Z" grade, and as of Fall, 1985 this grade will not be used.

   Audit grades will still be given but now must be requested by the student and instructor before the end of the third week of the quarter. This deadline allows the Office of Registration and Admissions to enter all audit grades for the quarter and subtract these credits from the report. We are working with the Commissioner's Office to clearly define this audit grade and its use.

4. Registration procedures have been tightened up since the 83-84 audit year to help ensure accuracy of FTE reporting:

   a. Deadlines set for the last day to enroll or to drop a class are followed closely (these dates are selected exclusively to provide accurate enrollment reporting).

   b. The grading system has been thoroughly reviewed and instructors are now utilizing it more accurately overall related to FTE reporting.

   c. Procedures for accurate documentation of withdrawal (cited above) have been instituted.

   d. Faculty have reaffirmed their commitment to the "W" as a student initiated grade and as of Fall Quarter 1985 will not submit a "W" on a grade roster.

   e. Deadline for audit requests have been moved up and audit credits are currently subtracted from the FTE count.

   f. Procedures to clean up attendance rosters--attendance reporting by faculty and student follow up--work to ensure that third week data represents officially enrolled and regularly attending students.

We believe these actions taken during the 84-85 school year will provide more accurate data for FTE reporting and use of audit.

AUDITOR'S RECOMMENDATION #8

We recommend the College ensure the current purchasing policies and procedures are followed.

COLLEGE RESPONSE

Following purchasing procedures continues to be a problem. However, the college president has communicated to faculty and staff the importance of following current college purchasing procedures. Also, the Business Office will notify individuals of instances of non-compliance with purchasing procedures and will require them to receive the president's approval before processing.

AUDITOR'S RECOMMENDATION #9

We recommend the College establish procedures to ensure accurate Bookstore inventory records are maintained.

COLLEGE RESPONSE

Some of the problems with inventory were related to the unexpected leave of absence for health reasons of the Data Processing Director who had developed the new inventory system. In the future the Controller will supervise inventory activities to assure accuracy.

Count sheets provided to the inventory team in the future will not include quantities.

Invoices in the past have been filled in the bookstore by vendor. Some of the invoices that could not be found were related to prior years and records in storage.

AUDITOR'S RECOMMENDATION #10

We recommend the College implement controls to prevent or detect errors in Bookstore transactions.

COLLEGE RESPONSE

Beginning in November of 1984 the Business Office started processing all accounts payable transactions for the Bookstore, coordinating book returns and keeping copies of all bookstore invoices. These changes should improve the accounting and record keeping activities of the Bookstore.

AUDITOR'S RECOMMENDATION #11

We recommend the College restrict computer users' access to that necessary for their functions.

COLLEGE RESPONSE

Business Manager Access

The Business Manager has been made master security officer.

Consultant Access

The consultant's level of access has been changed to Console Operator.

Deletion of Users

A review was made of all users and those that should no longer have access were removed. A procedure is established for departments to notify Data Processing of all terminations or changes in authorizations, so that password access can be kept current. In addition, a review is done at the end of each quarter to make sure access is current. All passwords are changed periodically on a rotating basis.

AUDITOR'S RECOMMENDATION #12

We recommend the College utilize resource security in addition to menu security for its important files.

COLLEGE RESPONSE

Menu Security

The former instructor has been removed from the security system and the current instructor has been restricted to menu security. The remaining four people need to bypass menu security for necessary operations and implementations.

Resource Security

Resource security is an integral part of the FMS (Financial Management System), EMS (Employee Management System) and CAS (College Administration System) software. We are presently studying System/36 Resource Security and plan to implement it for the rest of the users and systems.

AUDITOR'S RECOMMENDATION #13

We recommend the College develop policies and procedures for the EDP operation which will improve system integrity and efficiency.

COLLEGE RESPONSE

Operator Training

At the time of the EDP review the DP manager was on leave of absence. The position has been filled since August of 1984. During the past eight months the operator has made significant strides in her knowledge of computer center operations and has taken over many operating functions previously handled by the manager. The Business Manager's secretary has been trained to perform essential daily operations in the operator's absence. A night shift operator has also been hired, providing additional backup.

Review of History File

Currently, all history files are saved on diskette for one month for reference if problems should occur. The history files for one day fills approximately 100+ pages of print-out. It would be a monumental job for one person to review this thoroughly enough to determine if each user had authorization for each job they had run. It would be better to rely on the security system to control access and use the history file to aid in problem determination.

Incident Log

An incident log for the computer room was implemented by the console operator as of June 21, 1984. Procedures for documenting and reporting incidents, including an incident log, were developed and implemented last October.

General Policies

The policies and procedures manual has been presented for final approval to the Computer Advisory Committee. Approval has been postponed pending review of the committees' goals and responsibilities and possible changes to the organizational structure.

Applications Documentation

Documentation software is on order to help in documenting both old and new systems and in keeping documentation updated. The consultant is currently working on upgrading the documentation of the CAS (College Administrative System), to be completed by June 30th.

Scheduling EDP Processing

Since the migration to the System/36 with its larger memory and storage capacity, it is not required to schedule jobs. Also, with the hiring of a night operator, the daily backup has been moved to 7:00 PM. This gives user access to the system from 7:00 AM to 7:00 PM with assistance available from the Computer Center. Because most processing is interactive, we have not found it necessary to schedule jobs. We will consider job scheduling if computer demands increase prior to upgrading to a larger system.

Sharing User IDs

Now that there is an operator on duty evenings the two shared user ID's, which were used by the data entry class and the lab assistants, are no longer needed and have been deleted.

AUDITOR'S RECOMMENDATION #14

We recommend the College establish procedures that will result in timely submission of federal reports.

COLLEGE RESPONSE

Late reporting has been due largely to the vacancy of the Controller's position and other staff turnover as indicated in other areas of our response and page 3 of the auditor's report. The number of reports required has also significantly increased during this period. Reporting for financial aid has been burdened with reconciliations of the old sub-system with the current general ledger Financial Management System. The change over to the current general ledger system effective Spring Quarter 1985 was made possible by in house computer programming. The new system will significantly reduce the time required for financial aid reporting and also provides a system check of tuition refunds that need to be returned to the financial aid grant rather than the student as discussed elsewhere in this report.

AUDITOR'S RECOMMENDATION #15

A. Establish standard written criteria for determining which students are required to make repayments to the financial aid accounts.
B. Implement procedures to ensure refunds of tuition and fees are remitted to the appropriate person or financial aid account.

COLLEGE RESPONSE

The College has had a written repayment policy for years, however, if a student has a legitimate reason for withdrawing from attendance such as illness, death of a family member, etc., the financial aid director may waive the repayment. The student is placed on financial aid probation for unsatisfactory progress. The circumstances under which repayment may be waived will now be put in writing in the financial aid policy manual.

Every quarter starting with fall quarter of 1984, the Financial Aid Director reviews all refund request forms and instructs the Business Office as to what account or person payment should be made.

AUDITOR'S RECOMMENDATION #16

We recommend the College properly validate the student aid reports and follow up discrepancies as required by federal regulations.

COLLEGE RESPONSE

For the one student who was improperly validated, self-employment tax was included in U.S. income tax paid, a common error. We use and

elaborate validation worksheet to prevent such mistakes, but human error is always a possibility.

The director of financial aid had calculated the Pell Grant for this one student using the 1983 84 U.S. Department of Education Pell formula handbook and the Student Aid Index remained zero, so no overpayment actually occurred.

AUDITOR'S RECOMMENDATION #17

We recommend the College review authorized signatures periodically and update them as necessary.

COLLEGE RESPONSE

Currently upon notification from the Personnel Office, terminated employees are removed from authorized signature lists. The Business Office will also review signature lists periodically and update them as necessary.

AUDITORS RECOMMENDATION #18

We recommend the College establish procedures which will ensure transactions are reviewed and authorized before they are processed.

COLLEGE RESPONSE

The large number of documents, the vacancy of the Controller's position and employee turnover could have resulted in the lack of signatures. Also at the same time the Business Manager was both the approver and the preparer of documents. This is not a problem anymore after hiring a Controller. Presently documents without the proper signatures cannot be entered into the accounting system.

AUDITOR'S RECOMMENDATION #19

We recommend the College establish procedures to adequately account for library resources.

COLLEGE RESPONSE

The College Librarian has developed a system of keeping track of additions and deletions to the library books and will report these changes to the Business Office quarterly and annually for updating the College inventory records.

AUDITOR'S RECOMMENDATION #20

We recommend the College develop procedures to adequately account for and bill accounts receivable.

COLLEGE RESPONSE

Presently we send out quarterly billings. This coincides with the registration process and approximately six weeks time that refunds are being processed during each quarter. The College is presently in the process of implementing a new account receivable computer system. The new system will be integrated with Financial Management System and this will vastly improve the processing of accounts receivable and solve the shortcomings of the present system.

Presently the College turns over Accounts Receivable to the Credit Bureau after three attempts are made to collect. The Registrar's office maintains student address files and those files are used for our accounts receivable system. It should be noted that many students have temporary addresses while in school and it is difficult to locate them once they leave school.

AUDITOR'S RECOMMENDATION #21

We recommend the College maintain detailed support for general ledger balances of accounts receivable and payable.

COLLEGE RESPONSE

The College maintains a list of amounts owed by vendor including invoices and credit memos. This list titled "schedule of checks to be written" is printed monthly and at the end of the fiscal year. Correction for error carried forward from the old accounting system will be made.

The accounts receivable system is not presently integrated with the general ledger system. Accounts receivable detail information is maintained in the accounts receivable system. At the end of the fiscal year the general ledger is updated to reflect accounts receivable activity by account. As mentioned earlier, the College is in the process of implementing a new accounts receivable system. The new system will be integrated with the general ledger system and would provide a timely update of the general ledger. The new accounts receivable system will be tested during Summer Quarter of 85 and should be fully operational by Fall Quarter of 85.

We would like to thank you and your staff for your valuable assistance and recommendations.

Sincerely,

Howard L. Fryett
President

HLF/cf

THE MONTANA UNIVERSITY SYSTEM
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HELENA, MONTANA 59620-2602
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COMMISSIONER OF HIGHER EDUCATION

May 30, 1985

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MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Mr. Ringwood:

In response to your audit at Flathead Valley Community College, I submit the following:

AUDIT RECOMMENDATION #7

We recommend the college review and revise procedures to ensure an accurate and supported FTE count in accordance with Commissioner's Office policies.

RESPONSE: Concur

The Commissioner's Office will work with the college to ensure proper reporting of student enrollment.

Sincerely,

Steve Bennyhoff

Steve Bennyhoff
Financial Assistant

SAB/llt